

Report
of the
Examination of
National Mutual Benefit
Madison, Wisconsin
As of December 31, 2004

TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	2
II. HISTORY AND PLAN OF OPERATION.....	4
III. MANAGEMENT AND CONTROL	7
IV. AFFILIATED COMPANIES	11
V. REINSURANCE	13
VI. FINANCIAL DATA	16
VII. SUMMARY OF EXAMINATION RESULTS	26
VIII. CONCLUSION.....	29
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	30
X. ACKNOWLEDGMENT	31



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

February 10, 2006

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC

Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee,
NAIC

Commissioner of Insurance
Commonwealth of Virginia
1300 East Main Street
Richmond, Virginia 23219

Honorable Ann Womer Benjamin
Secretary, Midwestern Zone, NAIC
Director, Department of Insurance
State of Ohio
2100 Stella Court
Columbus, Ohio 43215

Honorable Gary L. Smith
Secretary, Western Zone, NAIC
Director, Department of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Honorable Eleanor Kitzman
Secretary, Southeastern Zone, NAIC
Director of Insurance
State of South Carolina
300 Arbor Lake Drive, Suite 1200
Columbia, South Carolina 29223

Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a
compliance examination has been made of the affairs and financial condition of:

NATIONAL MUTUAL BENEFIT
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of National Mutual Benefit (NMB or the society) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the society's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Society
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the society's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the society to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the society's operations is contained in the examination work papers.

The society is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of aggregate life and annuity reserves, aggregate accident and health reserves, refunds to members, asset adequacy analysis, and deferred life insurance premiums. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

National Mutual Benefit is a Wisconsin-domiciled fraternal benefit society authorized to conduct insurance business pursuant to ch. 614, Wis. Stat. NMB is the successor to a social fraternal society that was organized in 1902 under the name Beavers Reserve Fund Fraternity. Beavers Reserve Fund Fraternity was reorganized in 1916 as a fraternal benefit society authorized under the laws of Wisconsin to offer legal reserve life insurance products, and adopted the name Beavers National Mutual Benefit. In 1931 the society adopted the name National Mutual Benefit.

The present-day society was established effective January 1, 2001, upon the merger of Concordia Mutual Life Association (CMLA) into National Mutual Benefit. Concordia Mutual Life Association was an Illinois-domiciled fraternal benefit society originally incorporated February 2, 1909. Prior to the 2001 merger, NMB and CMLA were separate, independent fraternal societies, with home offices and business operations located in Madison, Wisconsin, and Downers Grove, Illinois, respectively. Each society operated as a life insurer under the ownership and control vested in its respective policyholder membership. In 2000, the supreme governing body of each of the two predecessor societies voted upon and approved the 2001 merger of National Mutual Benefit and Concordia Mutual Life Association as just and equitable to its membership, pursuant to corporate governance provisions of the respective society's articles of incorporation and bylaws.

Under the 2001 merger, CMLA merged into and with NMB, and NMB was the surviving corporate entity. The merger transaction was accounted for as a statutory merger, and prior-years financial information for National Mutual Benefit has been restated to provide comparability of prior-years data with financial information of the present-day society. National Mutual Benefit offers insurance products, annuities, and fraternal benefits to its policyholder members.

In 2004, National Mutual Benefit collected direct premium in the following states:

Wisconsin	\$ 6,894,740	55.8%
Minnesota	1,612,920	13.0
South Dakota	1,312,878	10.6
North Dakota	995,562	8.1
Illinois	664,562	5.4
All others	<u>882,832</u>	<u>7.1</u>
Total	<u>\$12,363,494</u>	<u>100.0%</u>

The society is licensed in 13 state jurisdictions, including the states of Arizona, Colorado, Illinois, Indiana, Iowa, Michigan, Minnesota, Montana, Nebraska, North Dakota, South Dakota, Wisconsin, and Wyoming.

The major insurance products marketed by National Mutual Benefit include traditional whole life insurance, universal life insurance including policies on two individuals with first-to-die benefits, term life insurance including guaranteed renewable, first-to-die, and juvenile insurance policies, and disability income insurance. Annuity contracts written by the society include single premium deferred annuities, flexible premium deferred annuities, and single premium immediate annuities.

National Mutual Benefit uses a career agency system, independent personal producing general agents (PPGAs), independent brokers, and other contractors to procure business. The agency system consists of 10 field offices organized into 8 districts, which are similar to traditional general agencies. Each marketing district is administered by a district manager, who has primary responsibility for recruiting, training and supervising the career agents employed within that district. At the time of the examination the society had 8 district marketing managers and 1 regional marketing director, and employed 32 full-time career agents. The society contracted with 162 PPGAs and independent brokers, who have 68 subagencies. The society's market segment focus is primarily individuals who reside in medium-size communities in the Midwest and West. The vast majority of NMB sales are made through personal, face-to-face meetings of agents with society members either in the member's home or at the agent's office.

The following chart is a summary of the premium income reported by the society in 2004. The growth of the society is discussed in the “Financial Data” section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Universal life	\$ 9,001,817	\$0	\$ 868,814	\$ 8,133,002
Traditional life	<u>3,361,676</u>	<u>0</u>	<u>169,593</u>	<u>3,192,082</u>
Total life	12,363,493		1,038,408	11,325,085
Annuities	4,356,366	0	0	4,356,366
Accident and health	<u>322,004</u>	<u>0</u>	<u>10,982</u>	<u>311,022</u>
Total All Lines	<u>\$17,041,864</u>	<u>\$0</u>	<u>\$1,049,391</u>	<u>\$15,992,473</u>

III. MANAGEMENT AND CONTROL

Membership

National Mutual Benefit is a fraternal benefit society not affiliated with any single religious faith or other affinity group. The objective of the society is to associate persons of all races, creeds, colors, genders, and national origins and their families, and to enable such persons to aid themselves and others with programs of insurance and benefits, fraternal and benevolent activities in local branches, and any lawful social, intellectual, educational, charitable, benevolent, moral, fraternal, or patriotic purpose. The society's fraternal benefit activities are conducted through the voluntary participation of NMB members in their local branches and through NMB instructional programs.

The society's articles of incorporation provide for two membership classes: benefit members and associate members. A benefit member is a person of at least 16 years of age who is covered by an insurance policy or annuity contract issued by NMB. Benefit members may participate in the business affairs of the local branch in which they are members and may hold office in the local branches. Benefit members are entitled to vote in the corporate and insurance affairs of NMB pursuant to the articles of incorporation and bylaws. An associate member is a person who is at least 16 years of age who has been accepted for membership in accordance with the eligibility rules as determined by resolution of the board of directors but who is not covered by an insurance policy or annuity contract issued by NMB. Associate members may participate in the affairs and activities of the local branch in which they are members and may hold office in their local branch but do not have the right to vote in the corporate and insurance affairs of the society. The society publishes the member magazine The Benefit News at least semi-annually in which the society provides items of interest to its members, official notices, and annual financial information.

Growth of Membership

The following table reports the total number of all classes of members of the society for each year since the previous examination.

Year	Members
2004	51,515
2003	52,242
2002	52,888
2001	53,902
2000	47,402
1999	48,275

Board of Directors

The National Mutual Benefit board of directors consists of five members. Four directors are elected every four years by ballot of the benefit members of the society. The fifth director, who occupies the executive office of NMB President, is appointed annually by the elected directors. The most recent election was held in 2002, for the election of directors to the term of office from January 1, 2003, through December 31, 2006. The 2002 election was the first ballot for election of directors that was conducted by mail. The elected directors currently receive an annual salary of \$23,508 for serving on the board and receive a \$525 meeting fee for each monthly board meeting attended and \$525 for each special meeting attended.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
George F. Yanna Fitchburg, WI	President and CEO National Mutual Benefit	2006
Nancy Nelson Heykes Krakow, WI	Executive Director, Fox Cities Rotary Multicultural Center	2006
Thomas E. Johnson Fitchburg, WI	Partner, McGladery & Pullen, LLP	2006
Donald Lohrentz Naperville, IL	Controller, NICOR Gas Company-Retired Former Chairman of the Board, CLMA	2006
John Rashke Verona, WI	Attorney, DeWitt, Ross and Stevens, S.C.	2006

Officers of the Society

The executive officers of National Mutual Benefit are appointed annually by the elected members of the board of directors to serve a one-year term of office. The executive officers serving at the time of this examination are as follows:

Name	Office	2004 Compensation
George F. Yanna	President	\$185,558
David R. Fiess	Secretary and Vice President of Operations	136,876
Steven G. Reindl	Treasurer	129,741
Wayne Kosbau	Vice President of Marketing	182,470

Committees of the Board

The society's bylaws allow for the formation of certain committees by the board of directors. The committees of the board at the time of the examination are listed below:

Investment Committee

George Yanna, Chair
Thomas Johnson
John Rashke
Nancy Heykes
Donald Lohrentz

Audit Committee

Thomas Johnson Chair
John Rashke
Nancy Heykes
Donald Lohrentz

Compensation Committee

Thomas Johnson, Chair
George Yanna
John Rashke

The society also maintains management committees that are established by the board. The committees as they exist at the time of examination are listed below.

Special Fraternal Benefits Committee

George Yanna, Chair
Anne Rogers
David Fiess
Wayne Kosbau

Finance Committee

George Yanna, Chair
Steve Reindl
David Fiess
Neil Bogenschnieder
Thomas Johnson
Donald Lohrentz

Mortgage Loan Committee

George Yanna, Chair
David Fiess
Neil Bogenschnieder
Thomas Johnson

Building Committee

George Yanna, Chair
David Fiess
Neil Bogenschnieder
John Rashke

Retirement Fund Managing Committee

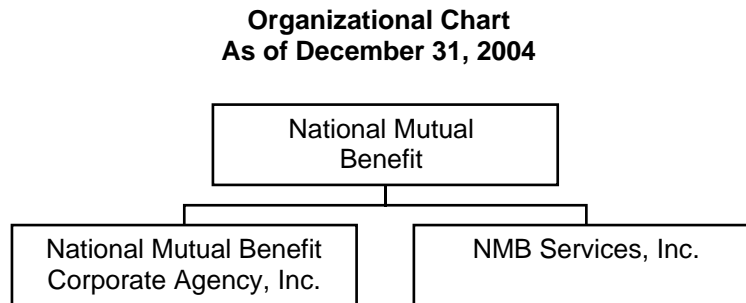
George Yanna, Chair
David Fiess
Steve Reindl

Routine Donations Committee

Nancy Heykes, Chair
George Yanna
David Fiess

IV. AFFILIATED COMPANIES

National Mutual Benefit is a member of a holding company system by virtue of its ownership of two subsidiaries. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the affiliates of National Mutual Benefit follows the organizational chart.



National Mutual Benefit Corporate Agency, Inc. (NMB Agency)

National Mutual Benefit Corporate Agency, Inc., was established by NMB in 1984 to serve as a broker for insurance products which the society does not write. NMB Agency is capitalized with \$15,000, representing 1,500 shares of common capital stock. NMB Agency provides to NMB customers brokered insurance coverages for major medical, disability income, current value single premium life, and rated-lives insurance products.

As of June 30, 2005, NMB Agency's unaudited GAAP basis financial statements reported total assets of \$27,625, liabilities of \$0, and total equity of \$27,625. Operations for the fiscal year ended June 30, 2005, resulted in reported net income of \$1,779.

NMB Services, Inc.

NMB Services, Inc., was established by NMB on June 20, 1995, to provide mortgage loan payment services for society members. NMB Services, Inc., is capitalized with \$5,000 of common capital stock. National Mutual Benefit offers a mortgage payment servicing plan whereby funds equal to one-half of a member's monthly residential mortgage payment are electronically transferred biweekly from the member's bank account to NMB Services, Inc., for a total of 26 transfers a year. NMB Services, Inc., uses 24 of the transfers to remit the monthly mortgage payments that are due to the participating society member's lending institution. Funds

from the two additional transfers to NMB Services, Inc., are applied toward NMB life insurance products, enabling insureds to accumulate additional cash value.

As of June 30, 2005, NMB Services, Inc.'s unaudited GAAP basis financial statements reported total assets of \$100,396, liabilities of \$146,266 and total equity of \$(45,870). Operations for the fiscal year ended June 30, 2005, resulted in reported net loss of \$33,929.

Agreements with Affiliates

NMB Cost-Sharing Agreement with NMB Corporate Agency, Inc.

NMB is party to a cost-sharing agreement with NMB Corporate Agency, Inc., whereby NMB provides facilities and services necessary for the management and operations of NMB Agency. Under the agreement, NMB allocates to NMB Agency the employee compensation and facility, equipment, and support costs incurred by NMB in performing services and providing facilities on behalf of NMB Agency. Allocated NMB employee costs include salary expense, FICA tax, unemployment tax, worker's compensation insurance, and employee benefits costs. Allocated costs that are payable by NMB Agency to NMB are settled semi-annually.

NMB Cost-Sharing Agreement with NMB Services, Inc.

NMB is party to a cost-sharing agreement with NMB Services, Inc., whereby NMB provides facilities and services necessary for the management and operations of NMB Services, Inc. Under the agreement, NMB allocates to NMB Services, Inc., the employee compensation and facility, equipment, and support costs incurred by NMB in performing services and providing facilities on behalf of NMB Services, Inc. Allocated NMB employee costs include salary expense, FICA tax, unemployment tax, worker's compensation insurance, and employee benefits costs. Allocated costs that are payable by NMB Services, Inc., to NMB are settled semi-annually.

V. REINSURANCE

National Mutual Benefit's reinsurance portfolio and strategy are described below.

Each of NMB's reinsurance contracts contains proper insolvency provisions.

National Mutual Benefit maintains ceding reinsurance agreements with four reinsurers. The society's reinsurance program enables NMB to cede reinsurance risks so as to maintain desired levels of maximum retained risk exposure and to diversify and mitigate risk on particular lines of business. National Mutual Benefit's maximum retention for any individual life risk is \$200,000. NMB does not assume any reinsurance risks and is not party to any reinsurance assumption agreements. In 2004, the society ceded insurance premium considerations of \$1 million, which equaled 8% of the gross life insurance premiums received by the society.

National Mutual Benefit currently has eight active reinsurance agreements for the cession of new risks and is party to numerous runoff reinsurance agreements that pertain to cessions on closed blocks of business. Each of the respective active contracts affords cession of risk on specified policy forms for particular business lines written by the society. Reinsurance premiums are paid to the reinsurers monthly for ceded risks. The following summary of the society's reinsurance program is limited to discussion of the current reinsurance agreements.

Current Ceded Reinsurance Agreements

National Mutual Benefit maintains a facultative coinsurance agreement with RGA Insurance Company for cession of universal life risks. The agreement provides for specified reinsurance premiums for universal life and for flat extra premiums and for first-to-die universal life. The minimum issue age for an insured is 0 and the maximum issue age is 75 for single plans, and the minimum issue age is 21 and the maximum issue age is 70 for first-to-die plans.

National Mutual Benefit also maintains a reinsurance agreement with RGA Insurance Company for facultative yearly renewable term reinsurance covering traditional life insurance products. Ceded business includes ordinary life whole life annual renewal term, ten-year term, and universal life. Reinsurance is for the net amount at risk for ceded policies and equals the face amount less the reserve value for ceded policies.

NMB is party to an automatic and facultative coinsurance agreement with General USA Life Reinsurance Company covering universal life policies. The treaty provides that whenever NMB retains its maximum retention of \$200,000 on an individual risk, the reinsurer will automatically accept life insurance risks of up to four times the NMB risk retention. If total amount of insurance issued and proposed on the insured in all companies exceeds \$10,000,000 the reinsurance must be applied for on a facultative basis.

National Mutual Benefit is party to an automatic and facultative reinsurance agreement with General USA Life Reassurance Company that covers traditional term insurance products. The agreement provides automatic coinsurance cession of life insurance coverages in excess of NMB's retention limit of \$200,000 any one risk, and reinsurance of up to \$150,000 for accidental death benefits providing the total amount issued on the insured in all insurers does not exceed \$300,000.

The society maintains a facultative yearly renewable term reinsurance agreement with General USA Life Reassurance Company covering traditional permanent life insurance policies. Currently business ceded under the agreement is comprised of life, disability waiver of premium, and accidental death insurance policies.

National Mutual Benefit maintains an agreement with Lincoln National Life Insurance Company that provides automatic and facultative reinsurance of NMB risks for universal life policies. Reinsurance under the agreement is term insurance on the amount at risk on the portion of the original insurance that is reinsured. The agreement provides for maximum automatic cession of \$240,000 for life insurance risks, maximum automatic cession up to \$2 million for waiver of premium disability, and maximum automatic cession of up to \$100,000 for accidental death benefit risks. The society has suspended cession of new disability income risks under the treaty. If the society determines that it does not want to accept and retain a new disability income risk on the applicable policy forms, it offers to the insured disability income products that are brokered by National Mutual Benefit Corporate Agency, Inc.

National Mutual Benefit is party to an automatic and facultative coinsurance agreement with Lincoln National Life Insurance Company for reinsurance of traditional term

insurance products. No new business has been ceded under the automatic provisions since July 1, 1998. Under the agreement, the society currently cedes excess ordinary life, waiver of premium disability, and accidental death universal life insurance risks as facultative reinsurance.

The society is party to an automatic and facultative yearly renewable term reinsurance agreement with Swiss Re Life & Health America, Inc., that was established effective November 30, 2005, having contract terms identical to an agreement with Lincoln National Life Insurance Company which was terminated on the same date. The agreement with Swiss Re covers all permanent traditional life insurance products excluding universal life. Under the agreement, the society currently cedes excess ordinary life risks on an automatic basis, and cedes excess ordinary life, waiver of premium disability, and accidental death traditional life insurance risks as facultative reinsurance.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the society as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Also included in this section are schedules which reflect the growth of the society, NAIC Insurance Regulatory Information System (IRIS) ratio results during the period under examination, and the 2004 compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Members' Surplus per Examination."

**National Mutual Benefit
Assets
As of December 31, 2004**

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$171,869,454	\$	\$171,869,454
Stocks:			
Common stocks	8,668,668		8,668,668
Mortgage loans on real estate:			
First liens	31,068,765		31,068,765
Real estate:			
Occupied by the society	1,387,948		1,387,948
Cash	4,812,918		4,812,918
Short-term investments	3,609,434		3,609,434
Contract loans	4,680,265		4,680,265
Investment income due and accrued	2,822,423		2,822,423
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	(80,220)		(80,220)
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,495,679	1,004,009	491,670
Reinsurance:			
Amounts recoverable from reinsurers	680		680
Other amounts receivable under reinsurance contracts	30,516		30,516
Electronic data processing equipment and software	771,844	720,646	51,198
Furniture and equipment, including health care delivery assets	<u>106,437</u>	<u>106,437</u>	<u> </u>
Total Assets	<u>\$231,244,811</u>	<u>\$1,831,092</u>	<u>\$229,413,719</u>

**National Mutual Benefit
Liabilities, Surplus, and Other Funds
As of December 31, 2004**

Aggregate reserve for life contracts	\$185,905,179
Aggregate reserve for accident and health contracts	770,786
Liability for deposit-type contracts	11,328,548
Contract claims:	
Life	358,131
Accident and health	5,573
Provision for refunds payable in following calendar year:	
Not yet apportioned	444,000
Premiums and annuity considerations received in advance	27,888
Contract liabilities not included elsewhere:	
Interest maintenance reserve	570,176
Commissions to fieldworkers due or accrued	451
General expenses due or accrued	560,320
Taxes, licenses, and fees due or accrued	3,615
Amounts withheld or retained by society as agent or trustee	19,399
Amounts held for fieldworkers' account, including fieldworkers' credit balances	29,888
Remittances and items not allocated	101,429
Miscellaneous liabilities:	
Asset valuation reserve	2,697,475
Drafts outstanding	90,471
Write-ins for liabilities:	
Post retirement benefit reserve	1,761,991
Deferred compensation	<u>1,125,854</u>
Total Liabilities	205,801,174
Unassigned funds (surplus)	<u>\$23,612,545</u>
Total Surplus and Other Funds	<u>23,612,545</u>
Total Liabilities, Surplus, and Other Funds	<u><u>\$229,413,719</u></u>

**National Mutual Benefit
Summary of Operations
For the Year 2004**

Premiums and annuity considerations for life and accident and health contracts		\$15,992,473
Considerations for supplementary contracts with life contingencies		260,304
Net investment income		12,953,353
Amortization of interest maintenance reserve		73,206
Commissions and expense allowances on reinsurance ceded		<u>341,570</u>
Total income items		29,620,906
Death benefits	\$ 3,839,567	
Matured endowments	179,870	
Annuity and old age benefits	5,135,761	
Disability, accident and health benefits including premiums waived	110,389	
Surrender benefits and withdrawals for life contracts	3,658,073	
Interest and adjustments on contract- or deposit-type contract funds	433,113	
Payments on supplementary contracts with life contingencies	253,047	
Increase in aggregate reserve for life and accident and health contracts	<u>6,068,765</u>	
Subtotal	19,678,585	
Commissions on premiums, annuity considerations, and deposit-type contract funds	1,588,616	
General insurance expenses and fraternal expenses	6,796,153	
Insurance taxes, licenses, and fees	351,013	
Increase in loading on deferred and uncollected premiums	25,323	
Write-in for deductions:		
Change in deferred compensation	207,117	
Change in post retirement benefit reserves	<u>(429,640)</u>	
Total deductions		<u>28,217,167</u>
Net gain from operations before refunds to members		1,403,739
Refunds to members		<u>377,537</u>
Net gain from operations after refunds to members and before realized capital gains or losses		1,026,202
Net realized capital gains or (losses)		<u>468,826</u>
Net Income		<u>\$ 1,495,028</u>

**National Mutual Benefit
Cash Flow
For the Year 2004**

Premiums collected net of reinsurance		\$16,183,241
Net investment income		12,286,159
Miscellaneous income		<u>331,695</u>
Total		28,801,095
Benefit and loss payments	\$13,207,353	
Commissions, expenses paid, and aggregate write-ins for deductions	8,711,563	
Refunds paid to members	<u>453,537</u>	
Total deductions		<u>22,372,453</u>
Net cash from operations		6,428,642
Proceeds from investments sold, matured, or repaid:		
Bonds	\$20,655,396	
Stocks	3,780,527	
Mortgage loans	<u>7,830,513</u>	
Total investment proceeds		32,266,436
Cost of investments acquired (long-term only):		
Bonds	25,133,950	
Stocks	3,933,014	
Mortgage loans	<u>6,329,050</u>	
Total investments acquired		35,396,014
Net increase (or decrease) in contract loans and premium notes	<u>5,905</u>	
Net cash from investments		(3,135,483)
Cash from financing and miscellaneous sources:		
Net deposits on deposit-type contract funds and other insurance liabilities	(389,584)	
Other cash provided (applied)	<u>289,585</u>	
Net cash from financing and miscellaneous sources		<u>(99,999)</u>
Reconciliation		
Net change in cash and short-term investments		3,193,160
Cash and short-term investments, December 31, 2003		<u>5,229,192</u>
Cash and short-term investments, December 31, 2004		<u>\$ 8,422,352</u>

**National Mutual Benefit
Compulsory and Security Surplus Calculation
December 31, 2004**

Assets		\$229,413,719
Less liabilities		<u>205,801,174</u>
Adjusted surplus		23,612,545
Annual premium:		
Individual life and health	\$11,113,033	
Factor	<u>15%</u>	
Total	1,666,954	
Greater of 7.5% of considerations or 2% of reserves for annuities and deposit administration funds	<u>1,874,763</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>3,541,717</u>
Compulsory surplus excess or (deficit)		<u>\$ 20,070,828</u>
Adjusted surplus (from above)		\$ 23,612,545
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)		<u>4,958,404</u>
Security surplus excess or (deficit)		<u>\$ 18,654,141</u>

**National Mutual Benefit
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2004**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the society in its filed annual statements:

	2004	2003	2002	2001	2000
Surplus, beginning of year	\$20,979,397	\$20,994,540	\$20,782,758	\$20,327,927	\$20,602,913
Net income	1,495,028	30,870	216,061	1,084,682	131,263
Change in net unrealized capital gains or (losses)	490,983	1,770,280	(795,048)	(762,847)	(194,411)
Change in nonadmitted assets and related items	256,964	(1,706)	(34,380)	(269,998)	(286,894)
Change in asset valuation reserve	<u>390,173</u>	<u>(1,814,587)</u>	<u>825,149</u>	<u>402,994</u>	<u>75,057</u>
Surplus, end of year	<u>\$23,612,545</u>	<u>\$20,979,397</u>	<u>\$20,994,540</u>	<u>\$20,782,758</u>	<u>\$20,327,927</u>

**National Mutual Benefit
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2004**

The society's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and are discussed following the table of IRIS ratio data.

Ratio	2004	2003	2002	2001	2000
#1 Net change in surplus	13%	0%	1%	2%	4%
#2 Net income to total income	5	0	1	4	5
#3 Commissions and expenses to premiums and deposits			Discontinued		
#4 Adequacy of investment income	156	152	162%	156	158
#5 Nonadmitted to admitted assets	1	1	1	1	1
#6 Total real estate & mortgage loans to cash & invested assets	14	16	20	23	29
#7 Total affil investments to surplus	0	0	0	0	0
#8 Surplus relief	1	1	1	1%	1
#9 Change in premium	-35 *	9	30	0	26
#10 Change in product mix	9.9 *	0.3	7.9 *	3.3	5.2 *
#11 Change in asset mix	0.3	1.3	0.6	0.6	0.6
#12 Change in reserving ratio	-9.0	-1.0	8.0	-2.0	-5.0

IRIS ratios reported above for the year 2000 pertain solely to financial data of NMB prior to its merger with CMLA. The ratios reported for 2001 through 2004 reflect financial information for present-day National Mutual Benefit subsequent to the January 1, 2001, statutory merger of NMB and CMLA.

The unusual IRIS results that occurred during the examination period related to ratio number 9, change in premium, in 2004 and ratio number 10, change in product mix, in 2000, 2002, and 2004. The unusual results were primarily due to year-to-year fluctuations in NMB's annuity business volume. NMB annuity business increased significantly in 2000, 2002, and again in 2003, and decreased dramatically in 2004. The observed changes in annuity business volume were the result of changes in NMB customer interest in annuity products and changes in guaranteed interest rates offered on the society's annuity products relative to interest rate movements in the external economic environment.

Growth of National Mutual Benefit

Year	Admitted Assets	Liabilities	Members' Surplus
2004	\$229,413,719	\$205,801,174	\$23,612,545
2003	221,379,394	200,399,997	20,979,397
2002	203,569,897	182,575,356	20,994,541
2001	189,984,500	169,201,742	20,782,758
2000	182,373,467	162,045,539	20,327,933
1999	178,589,421	157,986,504	20,602,918

Net Life Premiums and Annuity Considerations

Year	Life Insurance Premiums	Annuity Considerations
2004	\$11,325,085	\$ 4,356,366
2003	10,835,403	14,018,256
2002	9,818,110	12,468,289
2001	9,868,581	7,779,237
2000	9,029,469	8,707,849
1999	8,303,018	6,622,314

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2004	\$1,284,238	\$335,087	\$ 949,151
2003	1,266,002	337,905	928,117
2002	1,199,437	333,831	865,606
2001	1,160,810	158,424	1,002,386
2000	1,193,365	196,279	997,086
1999	1,158,881	94,102	1,064,779

Accident and Health

	Net	Incurred Claims and Cost		Other	Combined Loss and
Year	Premiums Earned	Containment Expenses	Commissions Incurred	Expenses Incurred	Expense Ratio
2004	\$312,584	\$ 98,717	\$37,514	\$101,044	75.9%
2003	321,023	159,601	46,444	112,619	99.2
2002	320,298	81,220	37,415	105,863	70.1
2001	326,978	73,227	29,799	126,848	70.3
2000	315,868	101,673	59,886	135,461	94.1
1999	308,760	90,103	71,057	185,766	112.4

The financial data reported above for 2000 and prior years is the aggregate total of combined National Mutual Benefit and Concordia Mutual Life Association historical data and is not directly applicable to current business operations of the present-day society. Admitted assets and surplus increased in each of the five years under examination, and gross life insurance in force increased by 10.8% to \$1.3 billion. During the five-year period, annual life insurance premiums earned increased 36.8% to \$12.4 million, whereas annual annuity considerations received decreased by 34.2% to \$4.4 million, reflecting NMB's emphasis on life insurance products as the society's primary market opportunity. Members' surplus increased in 2004 by 12.6% primarily due to favorable underwriting and investment results. During the five years under examination, surplus increased 14.6% to \$23.6 million as of year-end 2004.

Reconciliation of Members' Surplus per Examination

As of December 31, 2004, National Mutual Benefit reported total members' surplus of \$23,612,545. The current examination did not result in any adjustments to surplus, and 2004 members' surplus as reported by the society is accepted.

The current examination resulted in one reclassification of 2004 balance sheet accounts, as reported in the following table:

Examination Reclassifications

	Debit	Credit
Short-term Investments	\$1,887,341	
Cash		\$1,887,341

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the society are as follows:

1. Affiliated Agreements—It is recommended that the society develop and execute intercompany service/cost-sharing/income tax agreements and submit such agreements to this office for review in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2) (d), Wis. Adm. Code.

Action—Compliance

2. Fidelity Bond Coverage—It is recommended that the society obtain fidelity coverage at the level prescribed in the 1999 edition of the NAIC Financial Condition Examiners Handbook.

Action—Compliance

3. Reinsurance—It is recommended that the society correctly fill out Schedule S, Part 3, Section 1, of the annual statement according to the NAIC annual statement instructions for fraternal. Further, it is recommended the society set up controls to ensure the correct reports are maintained to support the numbers reported on the annual statement pursuant to s. Ins 6.80, Wis. Adm. Code.

Action—Compliance

4. Information Security Policy—It is recommended that the society formalize its Information Security Policy to clearly define the responsibilities of users, management and security administrators.

Action—Compliance

5. Asset Adequacy Testing—It is suggested that future Actuarial Memoranda include a discussion of all inherent risks associated with each major business segment.

Action—Compliance

Summary of Current Examination Results

Information Technology Systems

The examiners performed a comprehensive review of the society's internal control structure and operational procedures for its information technology systems. Examination review determined that the society's methods for evaluation of potential information technology network vulnerabilities are deficient. Best practice procedures for an information technology environment include periodic review of system vulnerability, both to ensure that system protection is up-to-date to prevent compromise of the system and also to test the system's ability to detect system compromise events. It is recommended that the society implement improved formal procedures to periodically identify and test information technology system vulnerabilities.

Cash and Short-term Investments

The society maintains one primary checking account in which all of the cash assets of the society are deposited. At close of business each day, uninvested cash balances in excess of \$100,000 are swept into a mutual fund account for short-term investment. The mutual fund invests in short-term US government securities.

As of year-end 2004, the society's assets invested in the mutual fund account were included in the cash ledger account and were included in the cash assets reported in the NMB statutory annual statements. However, the mutual fund is classified by the NAIC Securities Valuation Office as a US Direct Obligations/Full Faith and Credit Money Market Fund. Annual statement instructions provide that a mutual fund that is so classified should be reported as short-term investment in Schedule DA of the statutory statements. The examination made a debit reclassification of the \$1,887,341 mutual fund investment to Schedule DA, Part 1, "Short-term investments," and made a corresponding reduction to the cash balance reported in Schedule D, Part 1, "Cash" assets.

The society identified the account classification error in early 2005, at which time it established a separately identified ledger account to be used to record its investment in the mutual fund and it commenced classification of the mutual fund assets as a short-term

investment. Given the actions taken by the society, the examination did not pursue a recommendation in this area.

Annual Holding Company Disclosure Filings

As previously noted in this report, National Mutual Benefit is the controlling entity of a holding company system that is comprised of two non-insurance operating subsidiaries.

Pursuant to provisions of ch. 617, Wis. Stat., and s. Ins 40.03, Wis. Adm. Code, an insurer that is a member of a holding company is required to file annual holding company disclosure. Items to be disclosed annually include the capital structure, financial condition, and management of the insurer, the identity and relationship of material members of the holding company, and information regarding the agreements in force and transactions currently outstanding between the insurer and its affiliates. It is recommended that the society file annual holding company disclosure statements pursuant to the requirements of ch. 617, Wis. Stat., and s. Ins 40.03, Wis. Adm. Code.

VIII. CONCLUSION

National Mutual Benefit is a Wisconsin-domiciled fraternal benefit life insurer that offers life insurance and annuity products to its members. The present society was established effective January 1, 2001, when Concordia Mutual Life Association fraternal society merged with and into National Mutual Benefit. National Mutual Benefit was the surviving corporate entity, and NMB financial information for 2000 and prior years was restated to provide comparability of prior-years data with financial information of the ongoing society.

During the five-year period under examination, gross life insurance in force increased by 10.8% to \$1.3 billion, annual life insurance premiums earned increased 36.8% to \$12.4 million, and annual annuity considerations received decreased by 34.2% to \$4.4 million. Surplus increased by 14.6% to \$23.6 million as of year-end 2004. The total number of society members increased from 48,275 at the time of the last examination to 53,902 in 2001, largely due to the 2001 merger of NMB and CMLA. As of year-end 2004, membership decreased to 51,515.

This examination of National Mutual Benefit, conducted as of December 31, 2004, resulted in two recommendations which are summarized in the following section. Examination review determined that the society is in compliance with each of the comments and recommendations contained in the previous examination report. The current examination resulted in one reclassification of accounts reported in the society's 2004 statutory financial statements and did not result in any adjustments to 2004 reported surplus. As of December 31, 2004, the society reported total net admitted assets of \$229,413,719, total liabilities of \$205,801,174, and surplus of \$23,612,545.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Information Technology Systems—It is recommended that the society implement improved formal procedures to periodically identify and test information technology system vulnerabilities.
2. Page 28 - Annual Holding Company Disclosure Filings—It is recommended that the society file annual holding company disclosure statements pursuant to the requirements of ch. 617, Wis. Stat., and s. Ins 40.03, Wis. Adm. Code.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the society is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Stephen L. Elmer	Insurance Financial Examiner
Angelita M. Romaker	Insurance Financial Examiner

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge